

AR10



CORPORATE INFORMATION

DIRECTORS:

R. J. Allen	—	Vancouver, B.C.
C. W. Byler	—	Calgary, Alberta
H. G. Gammell	—	Calgary, Alberta
D. W. Hilland	—	Calgary, Alberta
J. Poscente	—	London, England
R. W. Termuende	—	Cochrane, Alberta

OFFICERS:

R. W. Termuende	—	President
D. W. Hilland	—	Secretary
J. A. Stewart	—	Assistant Secretary

COVER:

Copper/zinc/silver showing, Ogilvie
Mountains Area, Yukon Territories.

HEAD OFFICE:

736 - 8th Avenue S.W.
Calgary, Alberta

SUBSIDIARIES:

North American Nuclear Limited
Rio Alto Petroleums Ltd.

BANK:

Canadian Imperial Bank of Commerce

TRANSFER AGENT AND REGISTRAR:

Canada Trust Company

LEGAL COUNSEL:

McLaws & Company

AUDITORS:

Collins Barrow

STOCK LISTING:

Alberta Stock Exchange

TO OUR SHAREHOLDERS

We are pleased to present the Company's Annual Report for 1975.

Rio Alto Exploration Ltd. increased its exploration and land acquisition activities during the year. The most significant of these are the discovery of a high grade copper, zinc and silver showing in the Yukon Territories, the staking of an iron deposit in the same area, and the acquisition of a uranium exploration permit covering 169,000 acres in the Baker Lake area of the Northwest Territories.

The Baker Lake permit was granted to Rio Alto in April of 1975 and has since been optioned to a major exploration company which will be conducting an intensive airborne and ground exploration program in summer of 1976.

In the Yukon, Rio Alto and a private company jointly explored an area in the Ogilvie Mountains region near the Alaska border. Showings of copper and zinc carbonates were discovered which assayed as high as 14% copper and 39% zinc, and carried about 4 ounces of silver per ton. 91 claims were staked covering the showings. The joint exploration party examined and staked a nearby massive magnetite deposit which assayed an average of 55% iron. Both of these areas will be further explored early in the 1976 field season.

Although the Baker Lake and Yukon prospects are important additions to the company's assets, programs on our other properties continue to be encouraging.

In Saskatchewan, a regional airborne radiometric survey conducted by the federal and provincial governments defined a significant uranium anomaly on our claim blocks in the Wollaston Lake uranium area. The region around our land holdings is now being actively explored by major exploration companies.

Diamond drilling will be carried out this year on North American Nuclear Limited's claims in the Elliot Lake area of Ontario. North American Nuclear is a wholly owned subsidiary of Rio Alto and holds 214 claims at Elliot Lake in which Pan Ocean Oil Ltd. has an undivided 50% interest.

In Australia, Rio Alto has a minority interest in uranium claims that have been optioned to Pan Ocean Oil Ltd. which has announced a planned drilling program for 1976.

Rio Alto further expanded its foreign activities by forming a wholly owned subsidiary in Spain authorized to explore for minerals there. A large concession covering lead and zinc occurrences has been optioned, and a preliminary exploration program was started in 1975.

Early in 1976, Rio Alto staked 60 claims in the Quartet Lakes area of the Yukon following the release of a preliminary Geological Survey of Canada report noting the occurrence of uranium-copper mineralization. These claims will be explored in the coming field season.

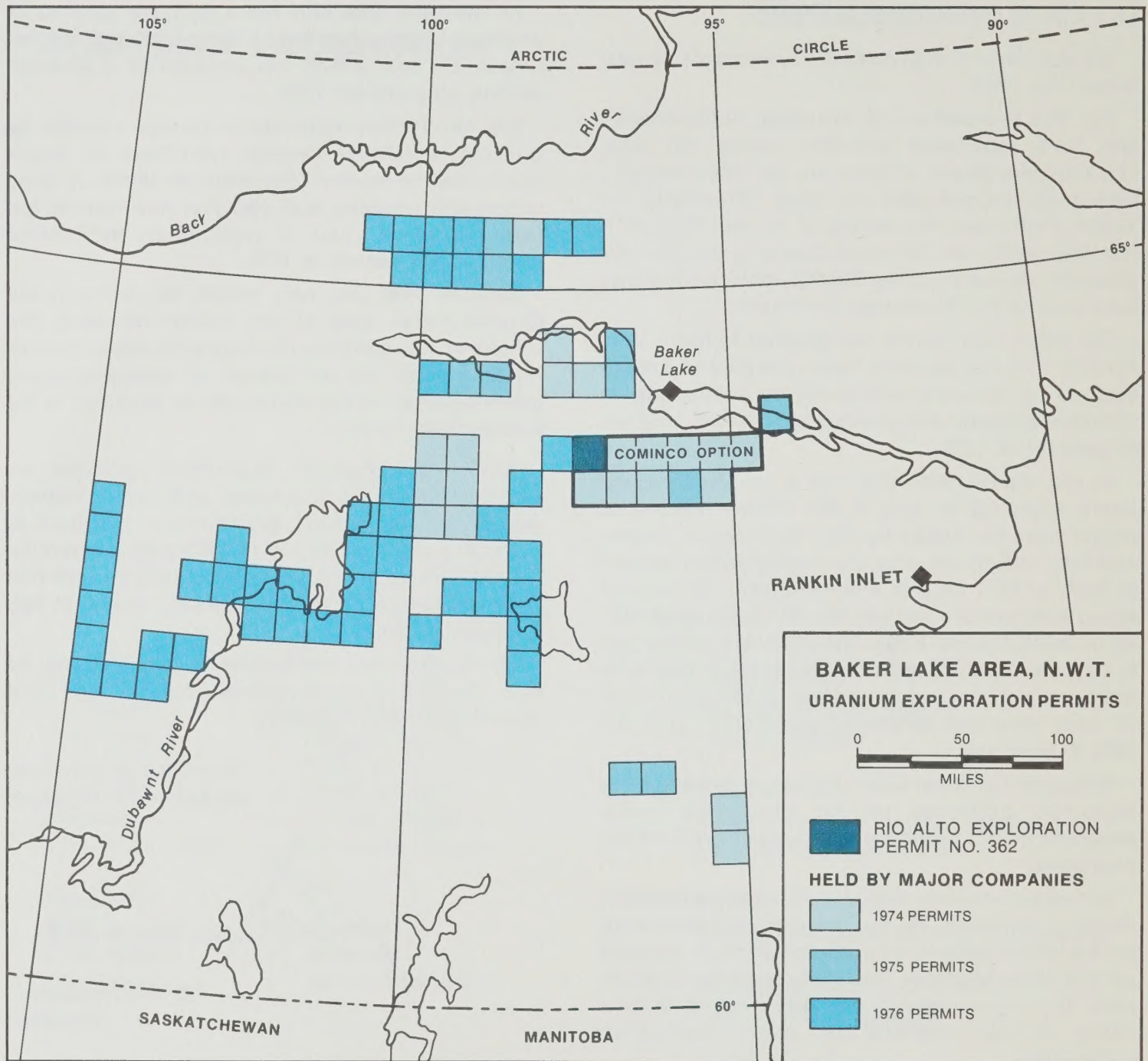
While the company's exploration activities are concentrated on uranium and base metals, petroleum and natural gas revenues continue to provide a source of funds. In 1975 total revenue increased almost 50% to \$151,000 providing a cash flow from operations of \$37,000. Working capital at year end was \$91,000.

The coming year will be one of record activity for our company and the opportunities for significant growth are most promising.

Respectfully submitted
on behalf of the Board



R. W. Termuende
President



EXPLORATION AND DEVELOPMENT

URANIUM

Baker Lake, N.W.T.

Since 1969 the Baker Lake area has been explored by various major companies. Exploration activity greatly increased in 1975 following the announcement of the results of Cominco Ltd.'s diamond drilling on permits optioned from a consortium headed by Pan Ocean Oil Ltd.

Cominco spent about \$750,000 in 1975, primarily diamond drilling. Of the results announced, the best section consisted of a mineralized intersection of 372 feet averaging 2.6 pounds of U_3O_8 per ton.

In April 1975, Rio Alto was granted permit #362 adjoining the Cominco option and covering a geological setting that has an excellent potential for uranium mineralization. Following a preliminary geological study, the permit was optioned to a major exploration company early in 1976. This company

will be conducting an airborne geophysical survey, together with a ground geochemical and exploration program during the coming summer.

Elliot Lake, Ontario

North American retained R. A. MacGregor, P. Eng. to evaluate our claims and recommend appropriate exploration programs. Diamond drilling was proposed in selected areas, and some drill locations have been determined. It was also recommended that 29 claims be abandoned, and this was done early in 1976.

Assays from holes drilled on a number of our claims in previous years show the presence of uranium with grades up to 1.2 pounds of U₃O₈ per ton.

The most productive diamond drilling would be deep holes to intersect the uranium-bearing conglomerates. Deep holes are costly and efforts are now underway to obtain the participation of major uranium exploration companies.

Quartet Lakes, Yukon Territories

In January 1976 the Geological Survey of Canada released a preliminary report by S. L. Blussom reporting uranium mineralization in the Quartet Lakes area, about 115 miles northeast of Mayo. The area has been explored for uranium by a syndicate since 1974. Hundreds of claims were staked following the release of the Blussom paper including 60 claims staked by Rio Alto in the area immediately north of Quartet Lakes covering a geologic rock unit thought to be favourable for uranium mineralization. These claims will be examined in 1976.

Hydichuk Lake, Saskatchewan

In 1973 Rio Alto acquired a 100% interest in 4 claim blocks covering a radiometric anomaly in an area about 14 miles east of Wollaston Lake. A ground prospecting program was conducted in 1974 without definitive results. The program was continued in 1975. It was concluded that if economic uranium deposits do occur in the anomalous area, exploration techniques other than surface examination will have to be employed to detect them.

The Hydichuk Lake area has recently been subject to renewed interest by other companies after the results of a joint Canadian and Saskatchewan Governments' airborne radiometric survey conducted in 1975 were released. Strong anomalies are present on our claim blocks and other locations to the south. The area near our claims is rapidly being staked, and will be explored intensively during the coming season.

Australia

Rio Alto has a 7½% interest in an Australian company formed to explore for uranium and base metals in that country. Uranium prospects in western Australia and the Frome basin of southern Australia were optioned to Pan Ocean Oil in 1973. Since then, Pan Ocean carried out exploration programs and plan further diamond drilling in 1976. The recent change of government in Australia provides a more favourable climate for uranium exploration by foreign companies.

BASE METALS AND IRON

Ogilvie Mountains Area — Yukon Territories

An interesting mineralized locality in the northern Yukon has recently been staked by Rio Alto Exploration Ltd. and Strom Energy Ltd. Two separate areas of mineralization approximately four miles apart have been staked with 91 quartz claims and 15 iron claims. The quartz claims cover an area of 4,712 acres and the iron claims comprise 2,400 acres.

1. Copper, Zinc, Silver Zone

Several showings of sphalerite, smithsonite, galena, tetrahedrite, malachite and azurite occur at the north end of the Middle Devonian dolomites which form the core of an anticline. Ribbon sphalerite and tetrahedrite patches occur in the white quartz veins in association with brecciated dolomite and black silicified shale. Some specimens collected in a

talus fan are apparently a mixture of copper carbonates and smithsonite. These samples were good fist-sized hand specimens and relatively pure. Since these minerals are of secondary origin and since this area has not been glaciated, it is possible that a substantial deposit of enriched supergene minerals could occur beneath the talus slopes and above a sulphide rich mineralized zone.

Assays of the carbonates have the following ranges of values:

Copper	5.75%	-	14.48%
Zinc	33.49%	-	39.52%
Silver	0.03	-	5.13 oz./ton

2. Iron Formation

Massive bedded magnetite (after oolitic hematite) occurs in near vertical beds along the east flank of an anticline. The occurrence forms a prominent resistant ridge which strikes almost due north. We es-



Magnetite deposit, Yukon Territories — looking north along strike.

timate the "formation" to be 200 feet thick and 1,500 feet in strike length. Depth of the formation is unknown, but it probably extends at least as far down as it is long, namely, 1,500 feet.

The iron formation is dark bluish-black at outcrop, is blocky to massive bedded and is apparently free of any shale or sandstone interbeds over a thickness of 200 feet. Several specimens were taken for assaying at different localities along the strike length of the deposit. Our calculations indicate that a conservative estimate of the apparent tonnage is 50 million tons averaging 55% iron.

It is possible that the iron formation increases in length and width at depth so the actual tonnage may be much greater. Since the deposit is located about 80 miles from the Dempster highway, it has a reasonable potential for eventual exploitation.

A geologic report on the copper/zinc/silver showing and the iron deposit, written for Rio Alto by M. N. Chernoff, P.Geol., recommends further prospecting and trenching. A program is being prepared and will be carried out in July, 1976 by Rio Alto and Strom Energy.

British Columbia

The company's base metal properties in B.C. are located at Sooke on Vancouver Island, and at Bull River near Cranbrook.

At Sooke, the company holds two Canadian Pacific mining leases covering 1200 acres including copper showings that were diamond drilled (3 holes) by Rio Alto in 1973 and 1974. The best intersection assayed 0.75% copper over 26 feet about 380 feet from the surface. In 1974 the company decided to reduce exploration in British Columbia because of the uncertainties of the political climate and taxation policy of the Province.

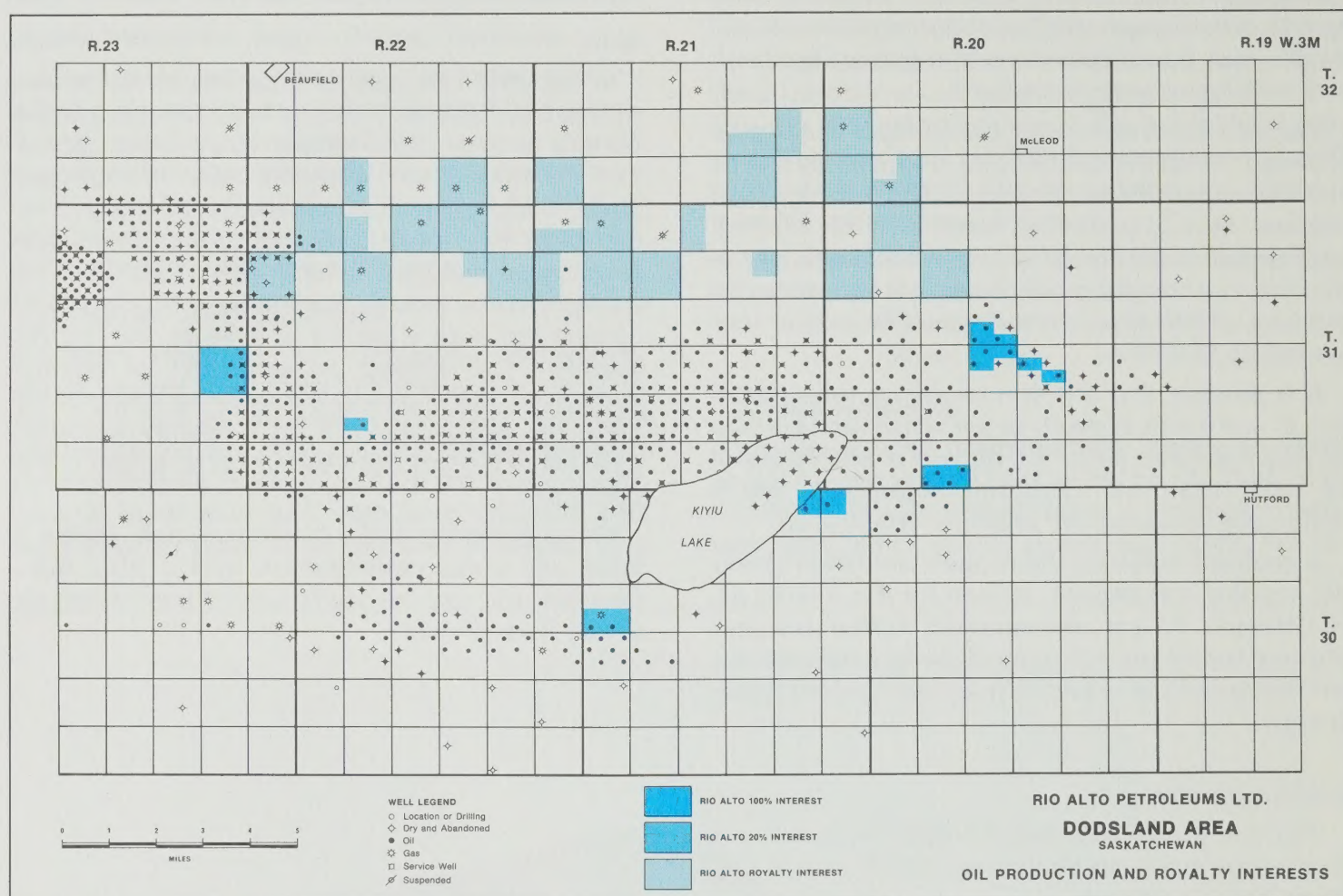
The company holds 20 claims in the Bull River area adjoining Placid Oil's open pit copper mine that was recently closed. No further work is contemplated on our B.C. copper prospects at this time.

FOREIGN EXPLORATION

Spain

In 1975 the company entered into an agreement with private Spanish interests whereby Rio Alto has options to earn a 75% interest in a mineral concession covering about 60 square miles in south east Spain. The prospect has numerous lead and zinc occurrences but is relatively unexplored by modern geophysical and geochemical techniques. Terms of the agreement include exploration programs to be carried out over a period of 5 years, starting this summer but subject to approval of Spanish authorities. The company is in the final stages of forming Rio Alto España S.A. as a Spanish subsidiary authorized to carry out exploration programs in that country.

Other prospects in the Cordoba copper region of Spain are under consideration by Rio Alto, but a decision will not be made until Government approval is confirmed.



PETROLEUM & NATURAL GAS

Rio Alto Petroleum Ltd., a wholly owned subsidiary, holds various working interests, ranging from 13 to 100 per cent, in 16 wells in the Dodsland Viking Sand oil field in Saskatchewan. Rio Alto also has a 0.68449% working interest in the South Eureka Unit, by virtue of varying working interests in nine wells in the Unit. The unit currently has 67 producing wells, and the Viking Sand in this area of the Dodsland field has been under waterflood since 1965.

These interests continue to provide the bulk of our operating income. Revenues this year from oil and gas sales totalled \$120,000, an increase of 50% over 1974. A continuous improvement program on our oil wells is responsible for the increase in production. All our wells have now been electrified providing 12 months of near trouble free production.

COAL

Exploration on the Alberta coal prospects in which Rio Alto has royalty interests has been reduced in the past year pending new government regulations. Rio Alto continues to receive \$18,000 per year in preproduction royalties from the Ram River and Nordegg Properties.

At Clearwater, a \$300,000 work program has been prepared by Mr. R. McCurdy, Consulting Coal Geologist, and is expected to be carried out on Clearwater Coal Ltd.'s property when all necessary government approvals are received.

AUDITORS' REPORT

To the Shareholders
Rio Alto Exploration Ltd.

We have examined the consolidated balance sheet of Rio Alto Exploration Ltd. and subsidiary companies as at December 31, 1975 and the consolidated statements of income, deficit, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the realization of the mining interest as outlined in note 2, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations, and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
March 4, 1976

COLLINS BARROW
Chartered Accountants

DECEMBER 31, 1975

Approved on behalf of the Board,

Chen

, Director

Guillermo

, Director

LIABILITIES

	1975	1974 (Restated)
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 26,253	\$ 17,801
Income taxes payable	8,842	—
	<u>35,095</u>	<u>17,801</u>
Deferred income taxes	<u>7,833</u>	<u>8,400</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized		
3,000,000 shares of no par value		
Issued		
1,913,935 shares (note 3)	500,093	500,093
DEFICIT (note 5)	(50,332)	(54,700)
	<u>449,761</u>	<u>445,393</u>
	<u>\$492,689</u>	<u>\$471,594</u>

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1975

	1975	1974 (Restated)
INCOME		
Oil and gas sales, net of royalties	\$120,254	\$ 79,251
Preproduction royalties	18,000	18,000
Management fees	4,150	2,400
Interest and other	8,992	10,076
	<u>151,396</u>	<u>109,727</u>
EXPENSES		
Production	63,165	42,649
General and administrative	51,222	44,495
	<u>114,387</u>	<u>87,144</u>
CASH FLOW FROM OPERATIONS	<u>37,009</u>	<u>22,583</u>
NON CASH EXPENSES		
Depreciation	10,764	2,523
Depletion	12,725	8,313
Cost of projects abandoned	500	—
	<u>23,989</u>	<u>10,836</u>
INCOME BEFORE INCOME TAXES	<u>13,020</u>	<u>11,747</u>
INCOME TAXES		
Current	9,219	—
Deferred (recovery)	(567)	8,400
	<u>8,652</u>	<u>8,400</u>
NET INCOME FOR THE YEAR	<u>\$ 4,368</u>	<u>\$ 3,347</u>
EARNINGS PER SHARE	—	—

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF DEFICIT

	1975	1974 (Restated)
DEFICIT, BEGINNING OF YEAR		
As previously reported	\$66,200	\$69,547
Adjustment of prior years administrative expenses		
(note 5)	11,500	11,500
As restated	54,700	58,047
Net income for the year	4,368	3,347
DEFICIT, END OF YEAR	<u>\$50,332</u>	<u>\$54,700</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1975

	1975	1974 (Restated)
SOURCE OF FUNDS		
Operations		
Cash flow from operations	\$ 37,009	\$ 22,583
Current tax expense	9,219	—
	<u>27,790</u>	<u>22,583</u>
Capital stock issued		
For cash	—	100,000
For purchase of properties	—	32,593
For purchase of subsidiary company	—	50,000
Reduction in drilling and exploration deposits	—	1,574
Proceeds on disposal of properties and equipment	2,815	43,619
Total source of funds	<u>30,605</u>	<u>250,369</u>
APPLICATION OF FUNDS		
Additions to properties and equipment	63,459	97,339
Purchase of subsidiary company, less working capital at acquisition of \$32,622	—	17,378
Share subscriptions applied to capital stock issued	—	100,000
Increase in investments	6,632	—
Total application of funds	<u>70,091</u>	<u>214,717</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(39,486)	35,652
Working capital, beginning of year	130,599	94,947
WORKING CAPITAL, END OF YEAR	<u>\$ 91,113</u>	<u>\$130,599</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1975

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and all of its subsidiaries, Rio Alto Petroleum Ltd. and North American Nuclear Limited. Any excess of cost of shares in the subsidiaries over the underlying net book value at dates of acquisition have been allocated to the property and equipment accounts.

(b) Oil and gas operations

The companies follow the full cost method of accounting for oil and gas operations. Under this concept, all costs relating to the exploration for and development of oil and gas properties are capitalized and depleted on the unit of production method based on estimated reserves of oil and gas. Proceeds on disposal of properties are normally deducted from accumulated costs without recognition of any gain or loss. Depreciation of production equipment is also provided for on the unit of production method.

(c) Mining operations

The companies follow the practice of capitalizing all acquisition and exploration costs relating to mining properties on a prospect area. If a prospect area is subsequently abandoned, all capitalized costs relating to the area are charged to income.

2. PROPERTIES AND EQUIPMENT

The following is a summary of properties and equipment:

	Asset at Cost	Accumulated depreciation and depletion	Net 1975	Net 1974
North America				
Oil and gas properties including exploration and development costs	\$ 63,281	\$27,363	\$ 35,918	\$ 50,480
Mining interests including exploration costs	243,246	—	243,246	217,445
Production and other equipment	44,144	14,433	29,711	15,293
Europe				
Mining properties	10,998	—	10,998	—
	<u>\$361,669</u>	<u>\$41,796</u>	<u>\$319,873</u>	<u>\$283,218</u>

Realization of the amounts represented as mining interests is dependant upon future developments, since the properties represented by these assets are substantially unexplored or undeveloped.

3. CAPITAL STOCK

At December 31, 1975 90,000 shares of the capital stock were reserved for options granted to an officer of the company exercisable as follows:

Exercise Date	Number of Shares	Price Per Share
June 30, 1976	60,000	\$.30
June 30, 1977	30,000	\$.35

The options are cumulative to the extent that any option not exercised in the initial option periods can be exercised during the remainder of the term of the options.

4. COMMITMENTS AND GUARANTEES

The company is committed for work performance on certain mining exploratory permits in the amount of \$16,926. This commitment is secured by a bank guarantee.

5. PRIOR PERIOD ADJUSTMENT

As a result of the forgiveness of debts incurred in 1971 and 1972, the deficits at December 31, 1974 and 1973 previously reported as \$66,200 and \$69,547 respectively have been restated to reflect a retroactive credit of \$11,500, being the amount of the debt forgiven.



rio alto exploration ltd.